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Pressures for Economic and Political Change in Eastern Europe: Implications for East and West

National Intelligence Estimate

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12 March 1984*

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**PRESSURES FOR ECONOMIC AND
POLITICAL CHANGE IN
EASTERN EUROPE:
IMPLICATIONS FOR EAST AND WEST**

Information available as of 12 March 1984 was
used in the preparation of this Estimate.

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SCOPE NOTE

This Estimate discusses in general terms the economic difficulties besetting the East European members of the Soviet Bloc;¹ examines specific economic and political problems in each country; assesses the present and possible future policies of the various regimes; and weighs the roles played in the area by the USSR and the Western powers. Finally, it estimates the overall outlook for Soviet-dominated Eastern Europe for the rest of this decade, and then, on this base, considers the implications of the East European problem for the United States and its West European allies.

¹ East Germany, Poland, Czechoslovakia, Hungary, Romania, and Bulgaria. The independent Communist states, Yugoslavia and Albania, do not fall within the purview of this paper.

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KEY JUDGMENTS

After almost 40 years under Soviet domination, Eastern Europe has yet to become either stable or self-supporting. Looking at the six East European states individually, we find that:

- Most of their economies are beset by very slow or nonexistent growth, stagnating or declining standards of living, and severe hard currency debts. Prospects for any appreciable recovery in the near term are, we think, quite slim.
- Most of their societies suffer from widespread popular disaffection, the product not only of economic deprivation but also of deep political discontent and frustrated feelings of nationalism. And public moods, we think, are likely to get worse over the next several years.
- With the possible exception of Hungary, their leaderships fear the risks of change and are in any case ill prepared and ill equipped to cope well with the complex social, political, and economic problems now facing them. Chances that they will soon adopt more rational, efficient, and humane policies, even of the cautious kind now pursued in Hungary, are not, in our view, good.
- Yet none of these states can any longer count on foreign help to bail them out. Western credits—bountiful during most of the 1970s—have pretty much dried up; Soviet assistance—principally in the form of price concessions on raw materials and energy—has been declining for several years; and neither the West (burned by Poland's de facto bankruptcy) nor the USSR (wrestling with its own serious economic problems) seems likely to become much more forthcoming, if at all, in the next few years.
- In the short term, the East Europeans (excepting the Hungarians) seem likely to temporize, some of them (for example, the Bulgarians) experimenting with economic reform, others (for example, East Germany) seeking solutions in a more efficient command system and more advanced technology. Time can be bought by trying to muddle through in this manner but, in our view, notable progress toward prosperity and stability cannot.

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We believe, as a consequence of all this, that Eastern Europe will remain a "depressed area," and a potentially volatile one, at least over the next few years. There are, to be sure, major political and economic differences among these countries; some (including Romania and Poland) appear closer to the edge of domestic crisis than others (Hungary and Bulgaria seem the most stable), and economically, despite current difficulties, some are far richer (for example, East Germany) than others (Romania is probably the poorest). But there are three contingencies which might, singly or in combination, provoke crises within any one of these states, or between any one of them and the USSR, comparable to some of the major upsets of the past:

- (1) A further, serious deterioration of economic health, which could provoke widespread public disorder.
- (2) The development of discord and disarray within the ruling parties, perhaps growing out of, and reflected in, succession infighting.
- (3) The emergence of a prolonged, intense succession struggle in the USSR, which could confuse Soviet policies and delay Soviet actions vis-a-vis Eastern Europe.

This is not to say that we think crises in the area are inevitable during the foreseeable future. We do feel, however, largely on the basis of the actual postwar record—10 significant crises in Soviet-dominated Eastern Europe since 1948—and on our own reading of the current troubled scene, that the odds favor the occurrence of political crisis in one or more East European states before the decade is out.

In the event of crisis, any Soviet leadership would almost certainly elect to intervene militarily if it concluded that the USSR's hold on a Warsaw Pact state (or, a corollary, the hold on power of a local Communist regime) was being lost. But we also believe that virtually any Soviet leadership would—as in the past—seek initially to contain any crisis without resort to force and run a certain risk and pay a certain price to avoid military intervention (as demonstrated for a time in the case of Poland in 1981 and, indeed, maverick Romania since 1964).

The new Soviet leadership is likely to continue Andropov's efforts to improve Bloc cohesion and strengthen Soviet hegemony, partly via the Council for Mutual Economic Assistance (CEMA) and the Warsaw Pact. But we think it unlikely that it will be able to devise an effective, consistent strategy for dealing with the USSR's long-term problems in

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Eastern Europe. Most of the East European regimes continue today, as they have for years, to resist Moscow's efforts to pressure them into boosting their (laggard) defense expenditures and strengthening CEMA (and the Soviet role within it). Further, despite apparent Soviet insistence on conformity, most seem uncomfortable with Soviet INF countermeasures in Eastern Europe, and at least three of these states—Romania, Hungary, and Bulgaria—still seem loath to join in a wholly unified posture toward the West.

Western Europe—despite recent declines in trade with the area, caused in large part by substantial East European cuts in imports—still plays an important economic role in Eastern Europe. Many West Europeans, especially the West Germans, seem persuaded that—especially if East-West tensions subside—this role can one day be expanded and perhaps converted into greater political influence as well. It seems likely to us that the West European states and the United States will from time to time disagree, and possibly vehemently so, over how best to achieve their common objectives in Eastern Europe—to help move Eastern Europe away from Soviet dominance and toward the Western democratic model—and how best to relate the pursuit of these objectives to the conduct of East-West affairs in general.

We do not expect any major increase in the West's ability to shape the course of events in Eastern Europe in the near future. But we do believe that at least low-key tension between the East European states and the USSR will persist and—together with pressing economic needs—will help to keep alive East European interest in better relations with the West. And in the longer term, barring another explosion in the area, we believe that opportunities for the expansion of Western, especially West European, influence will probably grow. Many, perhaps most, East European regimes will, we think, try quietly over time to increase their ability to pursue essentially national solutions to national problems. Some may eventually come to understand, as Hungary apparently already has, that they need both domestic reform and considerable Western help—trade, credits, know-how—if they are ever to achieve lasting health for their economies and a secure and long-lasting *modus vivendi* with their own peoples.

Postwar history suggests that the initiatives for change in Eastern Europe must come in the main from within. The West almost certainly will not be able to create the conditions that give rise to moves toward reform and autonomy, though it could, we think, reinforce such moves through the prudent use of economic levers and political pressures. East European perceptions of the Soviet Union are crucial in this context. An

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element of Moscow's strength in Eastern Europe rests on the USSR's reputation as a resolute superpower, led by men strong and skillful enough to make the tough decisions. Should that reputation and image be undermined—as it has been from time to time in the past—pressures for change and independence within Eastern Europe would probably grow, and could do so rapidly.

For their part, in the event of growing Western involvement in Eastern Europe, the Soviets would face conflicting objectives: they would be determined to preserve their hegemony but wish to steer clear of actions that might compromise their “detente” policies in Western Europe and their efforts to sever the ties between the United States and its NATO partners. Similarly, concerning East-West economic relations, they would wish on the one hand to guard against East European dependence on Western goods and credits but, on the other, want Western help to aid ailing East European economies. On balance, we believe that, short of a major crisis in the area, these competing objectives will not be resolved. Further, while the Soviet Union will maintain limits within which the East European regimes will have to operate, it is unlikely to develop an effective, consistent strategy for dealing with the long-term problems of Eastern Europe. This, together with the USSR's probable inability to provide adequate economic assistance, is likely, in our view, to give those East Europeans who seek them new opportunities to push back the bounds of the permissible.

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DISCUSSION

Introduction

1. Communist rule has endured in the six states of Soviet-dominated Eastern Europe for almost 40 years. But, as recurrent political and economic crises have attested, the area has yet to become either stable or self-supporting. Recent developments suggest, in fact, that many of the basic problems afflicting these societies are not getting any better and in some instances are probably getting worse. For example:

- Economic growth is slowing down and living standards are stagnating or dropping in most of these countries. Domestic resources are tight and productivity is falling. The financial crisis of 1980-82, occasioned by high levels of hard currency indebtedness and the decision of Western creditors to reduce their exposure, has eased somewhat but is far from over. And because the USSR is troubled by economic difficulties of its own, Soviet economic assistance is also decreasing.
- Serious political problems also abound. Some are, of course, related to grim economic conditions and prospects; in particular, an implicit social contract between regimes and peoples dating from the early 1970s—essentially, more bread for more support—no longer appears operative. Other problems are traceable to deep-seated social discontent, fierce resentment of Soviet hegemony, and strong feelings of nationalism.

2. The accession to power of Andropov in late 1982, the perplexity over his health and status during the last half of 1983, and the current transition to yet another leadership have added a new element of uncertainty and possible instability to the East European scene. Accustomed to at least implicit Soviet toleration of diversity and some freedom of action during most of the Brezhnev years and unsure of the direction Andropov was taking them, the East European leaders must now be uneasy about what might lie ahead. They seem to fear the possible emergence of a tougher Soviet line

toward Eastern Europe—signals from Moscow during Andropov's short reign were mixed on this score—and are no doubt concerned that the fallout from an Andropov succession struggle could prove disruptive within their own bailiwicks. In any event, the politics and policies of Eastern Europe may soon be unsettled by party factionalism and succession struggles at home; all but the Polish party are headed by men in or near their seventies.

Economic Adversity

3. Following years of respectable growth—on the order of 3 to 4 percent per year or more during the late 1960s and early 1970s—the East European economies began to slip, stagnate, or decline in the late 1970s: (See figures 1 to 6.)

- In 1980, only three of the six states of the area registered any economic growth at all, and that quite modest; in the three remaining states, GNP actually fell.
- Preliminary figures for 1983 suggest only marginal improvement—rates of growth ranged from a low of -0.5 percent in Romania and Hungary to a high of only about 2.0 percent in Poland.
- Increases in standards of living (consumption), averaging 3 to 4 percent or more per year in each of these countries in the late 1960s and early 1970s, have since sagged (to about 2 percent in Bulgaria in 1983) or sunk (down about 2 percent in Romania).
- Industrial production in the area as a whole has grown only slightly during the past five years; it dropped about 18 percent in Poland and rose on average only about 2 percent per year in the other five states.
- Overall, East European agricultural production has fallen since 1978.

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4. There are many reasons for this dismal state of economic affairs in Eastern Europe: inept management, systemic rigidities, scarce resources, obsolescent equipment, and declining or stagnating productivity. In addition, most of the area has in recent years become ensnarled in acute hard currency problems. The situation was worsened by external factors such as the oil price shocks of 1979, high interest rates, and the Western recession. But most of the blame lies with economic policies during the 1970s that resulted in massive imports of Western equipment and technology on credit that failed to make sufficient use of such imports and that were unable to boost exports sufficiently to repay credits.

5. East European hard currency indebtedness, just \$6.3 billion in 1971, reached some \$66.5 billion a decade later (see table). Most of the countries—Poland and Romania most conspicuously among them—had overborrowed, and in 1981 and 1982, as Western banks drastically cut back on lending, found themselves caught in a major credit squeeze. A lack of new credits, combined with disappointing export sales, then forced the East Europeans to slash imports—overall by some 30 percent during the two-year period, 1981-82. This produced a trade surplus for the region as a whole of \$5.3 billion in 1982 (compared to a deficit of \$4.7 billion, for example, in 1979). But this turnaround in the trade account could only be accomplished by cutting domestic investment (down nearly 8 percent annually, 1980-82) and by reducing consumption.

6. Moreover, the once advantageous Council for Mutual Economic Assistance (CEMA) oil-pricing formula—theoretically based on a five-year average of world prices—has now produced price hikes that have contributed significantly to a worsening of Eastern Europe's terms of trade with Moscow. Hard currency constraints preclude significant East European purchases of oil from non-Soviet suppliers, and production of domestic sources of energy will continue to increase only very slowly. As a result, Eastern Europe's energy supplies are likely to grow at probably less than 2 percent a year through the end of the decade, compared to growth in excess of 4 percent throughout much of the 1970s.

7. There are few signs of a sustainable economic recovery in Eastern Europe. To be sure, economic growth could improve marginally in some countries, and the expected modest recovery in Western Europe over the next couple of years should help revive hard currency trade and provide some small stimulus. But the forces depressing growth since the middle and late 1970s will probably survive in one form or another well into the late 1980s. Thus, although there will be individual variations, regional growth is unlikely to exceed 2 percent per year on a sustained basis. To achieve significantly higher growth rates in the remainder of the decade, the East European regimes would have to overcome:

— Virtually stagnant—and frequently decreasing—levels of investment.

Eastern Europe: Hard Currency Debt

Billion US\$

	1971	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^a
Eastern Europe	6.3	23.9	30.6	37.3	47.3	56.6	66.1	66.5	62.2	62.2
Bulgaria	.7	2.6	3.2	3.7	4.3	4.0	3.6	3.1	2.7	2.6
Czechoslovakia	.5	1.1	1.9	2.6	3.2	4.1	4.8	4.4	4.0	3.9
East Germany	1.4	5.4	6.3	7.8	9.7	12.3	14.1	14.7	13.1	12.2
Hungary	1.1	3.1	4.0	5.0	7.3	8.1	9.3	8.7	7.8	7.5
Poland	1.4	8.8	12.3	14.6	17.6	21.1	24.8	25.5	24.8	27.0
Romania	1.2	2.9	2.9	3.6	5.2	7.0	9.5	10.2	9.8	9.0

^a Preliminary estimates.

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- Declining increments to the total labor force.
- Continuing shortages of foreign exchange.
- Tight supplies of energy—especially oil—and other raw materials.

Prospects that these problems will soon be overcome are, in our view, very slight. This means that productivity is probably the only remaining source of higher growth for these economies. But the growth of labor productivity in most of the East European countries has been slowing and the productivity of capital has actually been falling. Consequently, even where earlier rates of growth of employment and capital stock were maintained, GNP growth slowed. These trends in productivity are likely to continue, largely because systemic weaknesses have made it increasingly difficult for the regimes to manage increasingly complex economies and sophisticated technologies.

The Situation in Each Country

8. Although it is thus possible to make generalizations about economic and political problems in Soviet-dominated Eastern Europe as a whole, situations vary widely from state to state. Economic health ranges from bad, as in Poland, to reasonably good in Bulgaria. Similarly, political stability, while nowhere improving, ranges from shaky (as in Poland) to fairly firm (as in Hungary).

East Germany

9. The East German economy—once the showcase of Eastern Europe—has recently fallen on hard times. Financial problems have forced the regime to cut imports severely and push exports, and this major adjustment of trade has exacted a stiff price from the domestic economy: GNP growth sagged to about 0.5 percent in 1982 and improved only marginally to about 1.5 percent in 1983 (see figure 1). The standard of living apparently declined in 1982 and 1983, with some foodstuffs and consumer goods in very short supply. True, surpluses in the hard currency current account balance in 1982 and 1983—coupled with East Berlin's special relationship with Bonn—have contributed to an improved financial position; debt to Western banks fell last year by \$750 million and reserves increased by \$900 million. But East Germany will

remain financially squeezed for at least the next two years as debt repayments exceed \$2 billion annually and the regime must continue to roll over a large short-term debt. As a result, the regime will probably have to maintain its austerity program—including some restraints on imports and investment—and growth is thus likely to remain sluggish. Party leader Honecker shows no signs of favoring market-oriented reforms. The regime is trying instead to improve management and efficiency—principally through the creation of large industrial trusts closely supervised by the central authorities—but we think this is likely to help only marginally.

10. The East German people—for the past eight or nine years accustomed to the highest standard of living in the Soviet Bloc—have made known their discontent with current trends in the economy. Consumers have become more assertive in objecting to shortages, and some workers have openly displayed their dissatisfaction. Moreover, many young people, who seem to have taken the relative prosperity of the 1970s for granted, have become alienated and more defiant in mood. (The unofficial, church-supported peace movement appears to be, *inter alia*, symptomatic of this.) Social ferment is likely, we think, to persist and perhaps rise for some time to come. But the people, generally passive for 30 years or so and faced with tight security controls and the omnipresent Soviets, are unlikely to resort to mass protests. Within the party itself, Honecker's position still seems strong, but his continuing problems with the economy could over time make him increasingly vulnerable to criticism from younger, more pragmatic elements in the party and state bureaucracies.

Poland

11. The Polish economy all but collapsed in 1981, remained in terrible shape in 1982, and improved only slightly and selectively during 1983 (see figure 2). Living standards, which fell in 1981 and 1982, may have increased a little in 1983. The financial picture—Poland is still in effect bankrupt—is as gloomy as ever, despite current trade surpluses with the West. The overall outlook for the long term is at best murky, depending as it does on such matters as the policies of Western creditors; the willingness of the USSR to provide additional economic help; the attitudes of

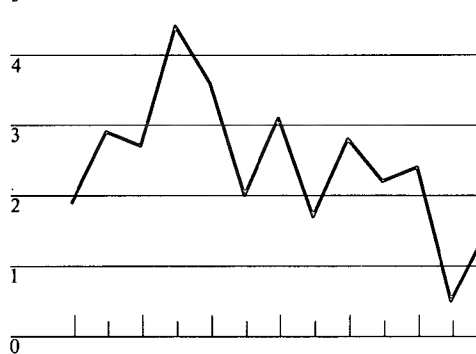
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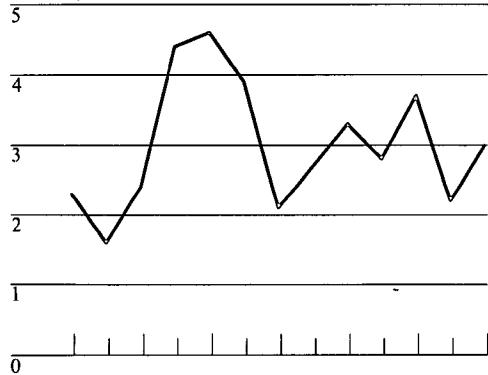
Figure 1
East Germany: Domestic Economic Indicators, 1971-83

Percentage growth

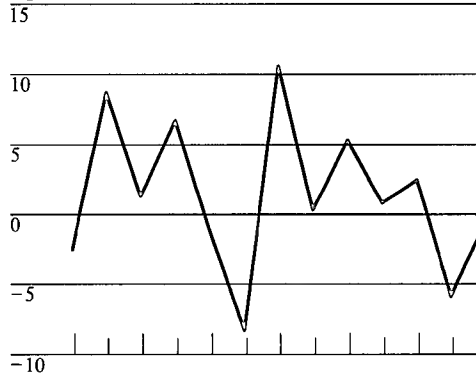
GNP



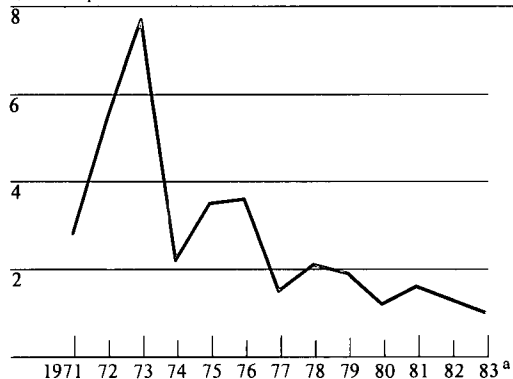
Industry



Agriculture



Consumption^b



Fixed Investment



^a Preliminary estimates.

^b Private and social consumptions.

Source: CIA estimates

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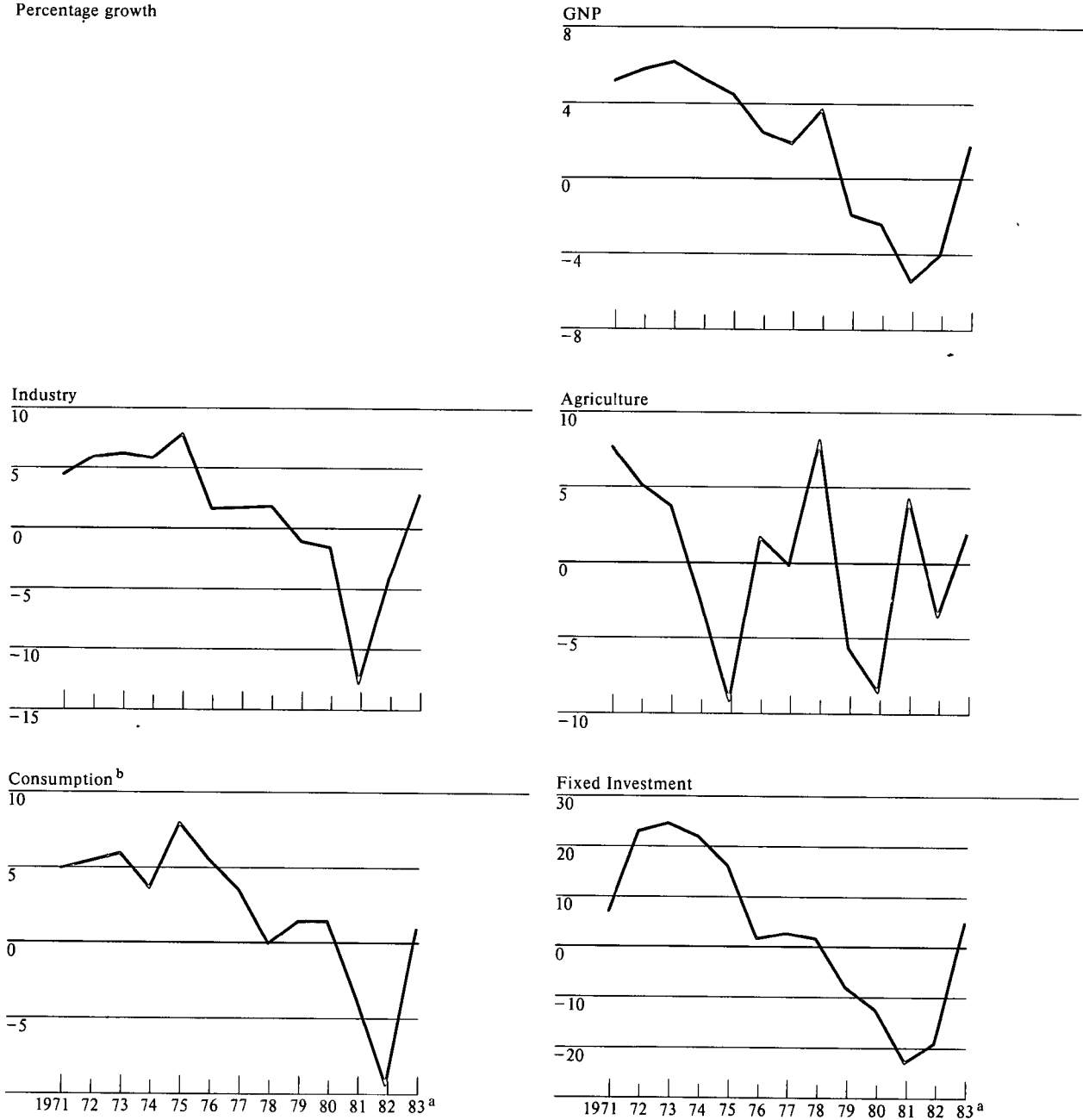
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Figure 2
Poland: Domestic Economic Indicators, 1971-83

Percentage growth



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disaffected Polish workers; and the ability of the Jaruzelski regime eventually to overcome a set of enormous, often interlocking, problems in, for example, investment, energy, transportation, and agriculture. Further, as the regime has tacitly admitted, there is little prospect of economic reform so long as economic and political troubles remain acute, and the regime is in any event fearful of innovation as a result of the Solidarity experience. On balance, we believe that over the next few years there will be a limited economic recovery from the depths reached in 1981-82, specifically an increase in industrial production, but no major easing of financial pressures or improvement of living standards and no official solution to complex agricultural problems.

12. Politically—through the use of the security services and martial law devices—General Jaruzelski's regime has scored a tentative success. Thus the principal immediate threats to its existence—mass public protests, Solidarity as an institution, and the resistance movement—seem to have been contained or brought under control. But long-term threats, including the force of Polish nationalism, the power and moral authority of the Roman Catholic Church, and the spirit of independence fostered by the Solidarity movement, are still potent. The regime remains troubled by factionalism within the party, which almost fell apart during the Solidarity era. Heavy dependence on the Soviet Union both helps and hinders official efforts to ensure stability. On the one hand, the regime needs Soviet political and economic support to survive; on the other, it will almost certainly fail to achieve legitimacy as long as it is so closely bound to the USSR. The regime itself seems to regard the Soviets with mixed feelings, well aware of its need for help from Moscow but resentful of, and occasionally resistant to, Soviet pressures. On balance, we foresee a sort of stasis in Poland for the next few years: the survival of the Jaruzelski regime (and only a slow rebuilding of the party), the persistence of popular disapproval and unhappiness, the continuing influence of the church, and the perpetuation of an uneasy relationship with the USSR.

Czechoslovakia

13. Although not suffering from the debt problems troubling other East European states, the Czechoslovak economy is in bad shape. Estimated GNP, which rose

at a modest rate from 1975 through 1980, has since in effect been stagnant. The standard of living has hardly improved since 1978 (see figure 3). The list of economic problems facing the Czechoslovak leaders is the familiar East European one—neglected agriculture, transportation and energy bottlenecks, rigid management, and an enervated work force. And, though Czechoslovakia is one of the two most industrially advanced of all East European states, it is saddled with Stalinist-style central planners, and its industrial base has become obsolescent and inefficient. Aware of all this, the regime of Gustav Husak, prodded by a number of economists and politicians, has talked about limited economic reform (some decentralization and emphasis on profitability as a major performance indicator), but it has done very little to bring it about and is currently emphasizing technological efficiency rather than reform.

14. The Husak leadership, in fact, is one of the most cautious and conservative in the area. Its quislinglike role after the Soviet invasion of 1968, its general inflexibility, its repressive rule, and its close and subservient relations with the Soviets certainly deny it popular respect and probably any real self-respect as well. Although a survivor, Husak is not a strong leader, and, from time to time, the party seems to be divided within itself. The Czechoslovak people have been for the most part passive, but lately have begun to grumble about what they perceive to be a decline in living standards. Factionalism within the party—of the sort that might accompany a succession struggle—could one day spread and resurrect pressures for change and reform from the elites and elements of the population at large. But we do not think large-scale antiregime demonstrations and public violence would be likely in these circumstances—they simply are not in the Czechoslovak style.

Hungary

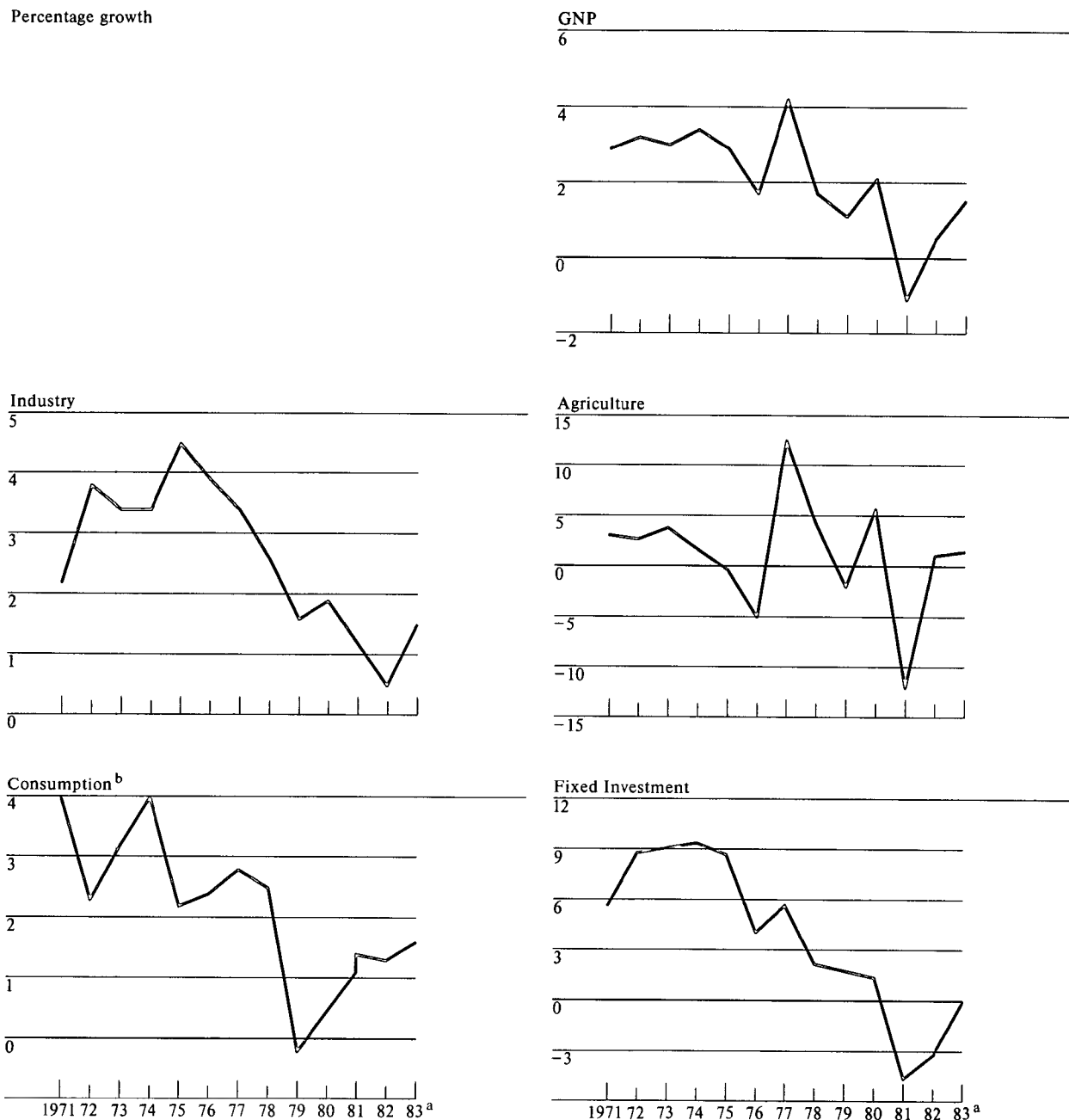
15. Hungary under Kadar is the only country in the Soviet Bloc that is carrying out a program of genuine, market-oriented reform. Today, some 15 years after the program was introduced, planning is to a fairly large extent decentralized, managers of a substantial number of state enterprises enjoy considerable autonomy, and many prices are determined by market forces. Further, private and cooperative enterprises

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Figure 3
Czechoslovakia: Domestic Economic Indicators, 1971-83

Percentage growth



^a Preliminary estimates.

^b Private and social consumptions.

Source: CIA estimates

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play a major, even vital, economic role, relatively free of government interference. The standard of living improved during the 1970s, and gains in agricultural production and productivity have probably outstripped those of any other Bloc state. The Kadar regime remains committed to gradual and rational change, consumer welfare, and expanding contacts with the West, and it is pushing ahead this year with several additional reforms. Hungary, however, has by no means been immune to economic problems. Many of the ills endemic to a centrally planned economy linger on, the country's resource base is quite limited, Soviet economic support is declining, the recession in the West has hurt exports, and debt management remains a major headache. Growth of GNP has slipped, and the standard of living is in effect stagnating (see figure 4). The financial crisis of 1982 has eased somewhat—principally because of major curbs on imports and investments, a limited resumption of Western (including IMF) lending, and hard currency surpluses in trade with the USSR. But even under the best of circumstances, financial pressures will remain acute for the next two or three years, and the Hungarian economy is not likely to grow at more than a modest rate until the latter half of this decade.

16. Despite growing concern about trends in living standards, the majority of the Hungarian people apparently regard the Kadar regime as distinctly preferable to any realistically conceivable alternatives. There is some actively expressed intellectual dissidence, disaffection among urban youth, and unhappiness among industrial workers who resent wage, incentive, and pricing policies they consider discriminatory. But the regime's efforts to build a national consensus and its relatively tolerant approach to dissidence, coupled with the general public's strong memories of the abortive revolution of 1956, seem to have defused most forms of opposition. On the whole, while the regime seems somewhat nervous about the public mood, the society seems basically stable, as it has been for the past 15 years or so. Within the party, while there is some debate over the pace and direction of reform policies and of their impact on industrial workers, Kadar and his supporters are in unchallenged control. Even after Kadar departs (he is 72 and in fairly good health), we believe that, barring Soviet interference or a prolonged economic downturn, dominant elements in the party will continue to see in the

Kadarist compromise approach the best way to preserve stability, socialism, and their own privileged positions in Hungarian society.

Romania ²

17. Romania's economic problems are among the worst in Eastern Europe, and the Ceausescu regime—managerially inept and ideologically committed to forced-draft industrial development—seems one of the least likely in Eastern Europe to address its problems effectively. Even after years of statistically impressive growth, Romanian living standards are probably the lowest in Soviet-dominated Eastern Europe, have not improved since 1980, and in certain key respects—the availability of food and fuel—have gotten much worse. The morale and productivity of the workers have suffered accordingly. The growth of GNP began to slow down in 1975, turned erratic in the late 1970s, became negative in 1980, and has been weak ever since (see figure 5). Energy problems are acute and the agricultural sector is in very bad shape. The collapse of Western lending and Bucharest's need to reschedule its debts has led Ceausescu to make enormous cuts in imports. (Total imports dropped by a quarter in 1982, hard currency imports by a third.) Finally, there is little reason to anticipate improvements in economic performance—or living standards or worker morale—over the next few years. In fact, the foreign trade problem—specifically, the generation of surpluses through draconian cuts in imports rather than through export growth—is likely temporarily to damage the economy. And, while Bucharest has crossed one hump in its debt maturity schedule, Romania still has to cope with the expiration of the IMF standby credit, possible arrears from 1983, and continued restricted access to credits. Moreover, the breathing space associated with rescheduling ends in 1985, when Bucharest must begin to repay obligations rescheduled in 1981.

18. Ceausescu, in power for about 19 years, completely dominates Romanian political life. He is an absolute ruler and, together with his immediate entourage (including his politically powerful wife), makes all important decisions. Ceausescu's control rests in large part on his use of the secret police and the frequent

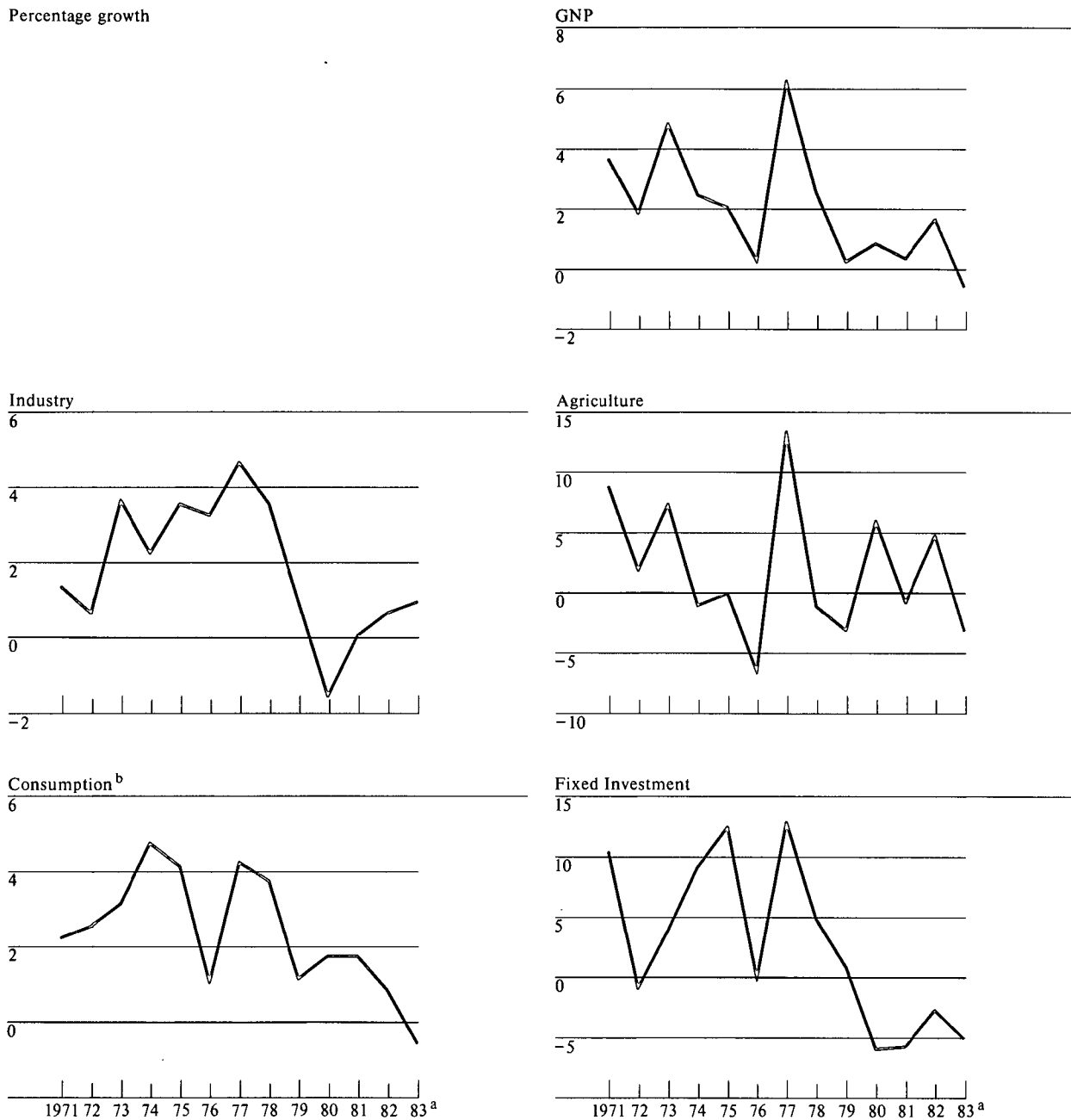
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Figure 4
Hungary: Domestic Economic Indicators, 1971-83

Percentage growth



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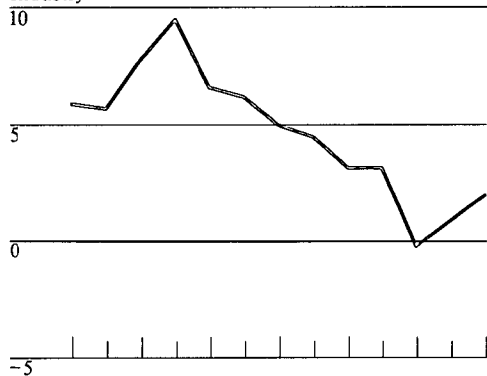
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Figure 5
Romania: Domestic Economic Indicators, 1971-83

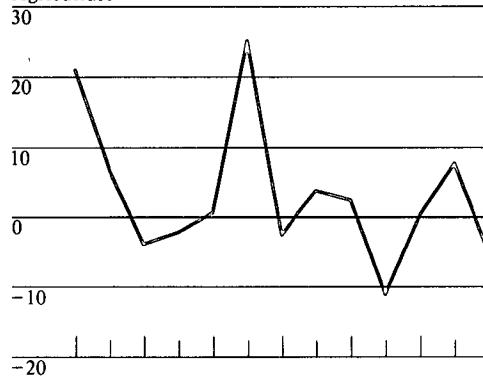
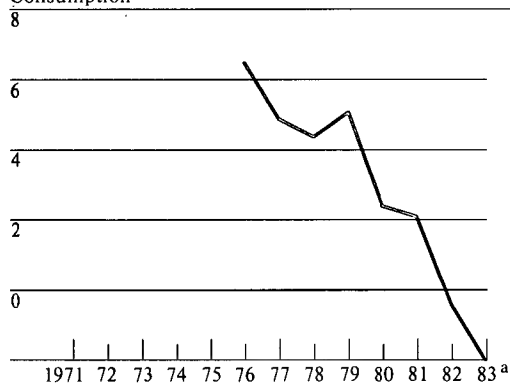
Percentage growth

GNP
15

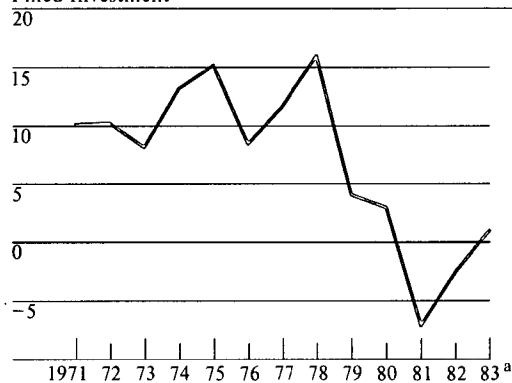
Industry



Agriculture

Consumption^b

Fixed Investment

^a Preliminary estimates.^b Private and social consumptions.

Source: CIA estimates

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transfers and firings of government and party bureaucrats. There is, as far as we know, no organized opposition to Ceausescu. Still, disaffection may now be almost universal; the people seem increasingly weary of oppression and deprivation—which is likely to get worse this winter—and the elites are becoming more and more openly resentful of clumsy and capricious administration. Further, Ceausescu may no longer be able to count on his stance as a nationalist to prop up his personal political standing. In sum, Ceausescu's vulnerability to political challenges is, we think, increasing as a result of the economic decline; his apparent inability or unwillingness to cope with it effectively; and his harsh, arbitrary, cult-of-personality style of leadership. Following Ceausescu's departure from office, forced or otherwise, the redistribution of power will be a complex task and could result in a sharp succession struggle. This, if prolonged, would almost certainly invite Soviet meddling and could even spill over into the streets.

Bulgaria

19. The Bulgarian economy is faring somewhat better than the economies of other East European states. GNP, which has suffered from bad harvests in 1980 and 1983, has nonetheless grown at a moderate pace since 1978 (nearly 2.0 percent); living standards have improved (at a slow pace) for several years (see figure 6); and debt to the West has been kept to a manageable size (see table). This is, in fact, a success story of sorts—no other East European country has been able to maintain both growth and financial health in recent years. One of the reasons for this has been the regime's skill in hewing to a conservative financial line since 1975. But much of the country's relative prosperity is attributable to economic support provided by the USSR, which accounts for about half of Bulgaria's total trade and which—at least until the last year or so—has conducted that trade on terms very favorable to the Bulgarians. (Even Sofia's trade surpluses with the West have depended to a significant degree on Moscow's willingness to tolerate Bulgaria's profitable reexport of Soviet oil to hard currency countries.) The country's economic prospects—GNP growth around 2 percent a year and continuing, slow rises in living standards—seem reasonably bright. But they would dim substantially if Soviet support (already declining) were cut back severely.

20. Todor Zhivkov has maintained firm control of the Bulgarian party and government since the early 1960s, partly through his skills as an autocrat, partly by serving the Soviets in an exemplary manner. But Zhivkov is now 72 and recently has seemed somewhat less sure of the orthodoxies of the past. He has indicated a desire to improve contacts with the West, encouraged once-forbidden expressions of Bulgarian nationalism, and allowed domestic economic policies, especially in agriculture, to reflect a hitherto rare willingness to experiment cautiously with non-Soviet concepts and structures. Zhivkov may be concerned about the public's mood, which, while apparently not restive, does not seem to be actively supportive either. He may thus be seeking a better way to run the country before he leaves the scene, and he may also be flirting with the idea of compensating for declining Soviet subsidies with new arrangements—larger credits, expanded trade—with the West. While members of the Bulgarian Politburo seem to be loyal to Zhivkov, they fall roughly into two policy camps, the doctrinal and the pragmatic, and apparently differ over such issues as economic reform, cultural policies, and nationalism. This argues for serious contention within the party when Zhivkov departs.

Eastern Europe As a Whole: Policy Alternatives

21. Given the gravity of their problems and the clear inadequacies of traditional ways of dealing with them, the East European regimes might well be expected to turn toward new and better ways to cope. But only the Hungarian leadership, and to a much lesser extent the Bulgarian, have so far actually done so. The East Germans are trying to revitalize the old command system, but their means are not essentially new and seem likely to bring only marginal improvements in efficiency and performance. And, in the absence of Soviet pressures to undertake extensive reform programs, the other regimes have been trying in the main to muddle through.

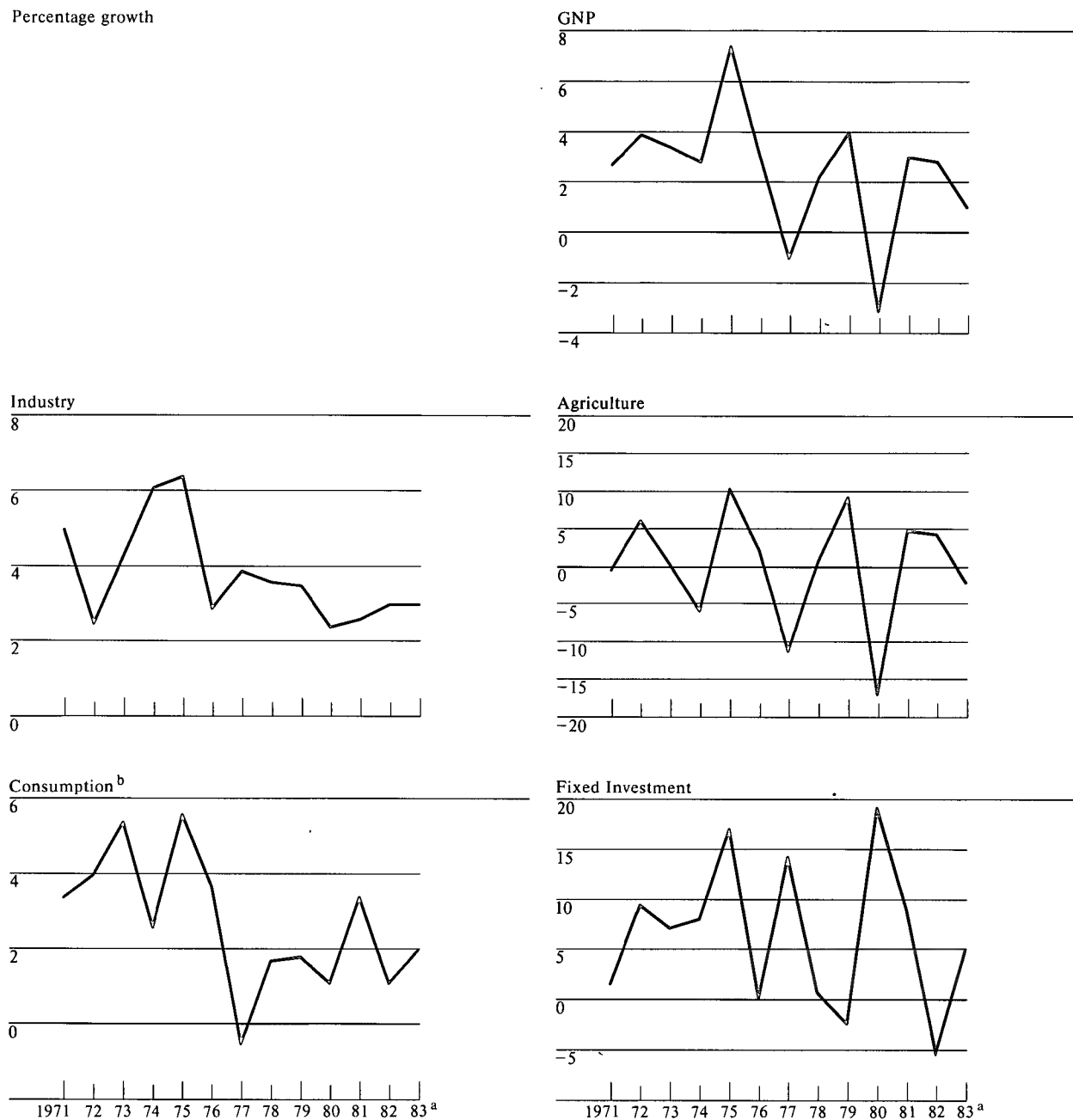
22. Systemic reform, comparable, say, to that under way in Hungary, has been forestalled by a variety of factors. Many leaders and bureaucrats are no doubt afraid that economic reform will require meaningful political relaxation and major sociopolitical reforms as well. And—with the image of Dubcek's Czechoslovakia in mind—they fear that this could, in turn, lead not only to a dilution of the power of the party and a

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Figure 6
Bulgaria: Domestic Economic Indicators, 1971-83

Percentage growth

^a Preliminary estimates.^b Private and social consumptions.

Source: CIA estimates

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debasement of its ideology but also to a dangerous instability, especially if—as has happened in the past—various elites, interest groups, dissidents, and the people themselves sought to test their political strength. The regimes know in any case that reform could not improve economic performance quickly and, indeed, could temporarily retard growth, provoke unrest among those threatened with job loss, and agitate consumers faced with further price increases.

23. But, in our view, promising alternatives to far-reaching reform or to trying to muddle through simply do not exist:

- *Austerity*, manifested principally in the form of cuts in imports and investments (and reflected in stagnating standards of living), is already severe in all these countries save Bulgaria. But it is, as currently practiced in most of these countries, an aspect of muddling through, less a program than a jury-rigged reaction to economic events and political concerns. The enactment of even harsher, more systematic measures would probably further damage living standards and would have to be coupled with heavier political repression as well. And such measures would not only risk protests and strikes and further declines in worker morale and productivity, but would also seriously jeopardize whatever prospects remain for the eventual resumption of healthy economic growth.
- *Soviet aid*, principally in the form of concessionary prices for certain raw materials (notably crude oil), was substantial during the 1970s but has been declining as a result of: rising Soviet raw material prices; the USSR's own economic difficulties, which encourage Moscow to cut back on some deliveries, to demand East European goods of better quality, and to look for ways to reduce its trade surpluses; and the apparent conviction of the Soviets that further belt tightening by the East European regimes is a sensible, perhaps necessary, way for them to proceed and for the Soviets to reduce costly economic concessions. There thus is little chance that levels of Soviet aid will rise anywhere in Eastern Europe in the visible future.

— *Western lending* to Eastern Europe has fallen off dramatically since 1980. Understandably, Western bankers, governments, and international institutions are not now bullish about East European economies, and future lending will be more selective and restrained than it once was. In any case, the overextended East European regimes, while still probably eager to acquire Western capital and know-how, are now well aware of the perils of overborrowing and presumably will be more careful in the future.

Outside Forces: East and West

The Current Soviet Role

24. The USSR exercises predominant foreign influence in each of the East European states and maintains basic limits on East European independence. Communist Party control and membership in the Warsaw Pact, for example, are both mandatory. The exercise of the USSR's hegemony does, however, vary according to time, place, and circumstance, and some of the regimes have won substantial authority over the conduct of their own affairs. (Important in this regard are the amount of confidence an East European leader enjoys in the Kremlin and his political strength at home. Kadar, for example, evidently acts with considerably greater latitude than Husak, in part because he is personally held in high repute in Moscow and is securely in command in Budapest.) In any event, the Soviets often encounter circumvention and resistance to their pressures and accept developments rather than provoke a crisis over them.

25. There are only limited elements of differentiation in Soviet policy toward the East European states. On the one hand, the three northern-tier countries (East Germany, Poland, and Czechoslovakia) are strategically and economically the most important to the USSR, and this is reflected in trade statistics, the quantity and quality of weapons shipments, and indeed in war plans. Moscow also seems in effect to have punished Romania for its maverick foreign policies by refusing to sell it oil on terms as favorable as those given other East European countries, and it has in the past threatened economic reprisals against states that it feared were departing radically from Bloc norms (for

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example, Czechoslovakia in 1968 and Poland in 1981). But beyond this, Moscow has not established a clear pattern of differentiating between the various countries on the basis of their political and ideological fidelity or their economic performance. (Thus, Czechoslovakia, probably the most orthodox and submissive of the lot, does not, as far as we know, receive any more favorable treatment than reformist, cautiously autonomous Hungary.) This approach, which has governed Soviet behavior since the mid-1960s, did not seem to change under Andropov.

26. Andropov nevertheless had implied that his predecessor's policies toward Eastern Europe were lax. Yet, despite long experience in and with the area, he—like Brezhnev and Khrushchev before him—did not reveal a capacity or unveil a consistent strategy for dealing with long-term Soviet problems in Eastern Europe. His prescription for East European economic problems, not unlike that for the USSR itself, seemed to be greater productivity through increased labor discipline, a crackdown on corruption, and closer economic integration via CEMA.³ At the same time, however, Andropov also suggested the desirability of national solutions for national problems by emphasizing the need for pragmatic and innovative economic adjustments and attacking (anonymous) officials who cling to outmoded policies and doctrines.

27. Not surprisingly, these mixed signals from Moscow, together with Andropov's health problems, caused some confusion and concern in Eastern Europe. Until roughly midyear 1983, for example, conservative elements in the East European parties apparently feared that Andropov would press hard for innovation and change; after some initial optimism, liberal circles began during the summer to fear that he would not. Some East European leaders who were close to Brezhnev, including Zhivkov and Husak, did not seem at all enthusiastic about the new Andropov regime, and it would be surprising if most were not now apprehensive about the course of Soviet politics

³ Moscow has long sought to integrate the CEMA economies through the coordination of economic and foreign trade plans, specialization in production, participation in joint investment projects, and the establishment of links among enterprises. Past efforts have for the most part foundered because of the East Europeans' reluctance to concede greater Soviet control; difficulties over the past year or so in convening a CEMA summit conference testify to continued East European resistance.

over the next several years. But none of the regimes seem since Brezhnev's departure in late 1982 to have made any appreciable changes in their own policies or in the ways in which they deal substantively with the USSR. Indeed, indications are that a majority of them continue to resist Moscow's efforts to enhance the role of CEMA and to boost East European defense expenditures, most seem uncomfortable with Soviet INF countermeasures in Eastern Europe, and at least three of them—Romania, Hungary, and Bulgaria—still seem reluctant to join in a wholly unified Bloc posture vis-a-vis the West.

The Current Western Role

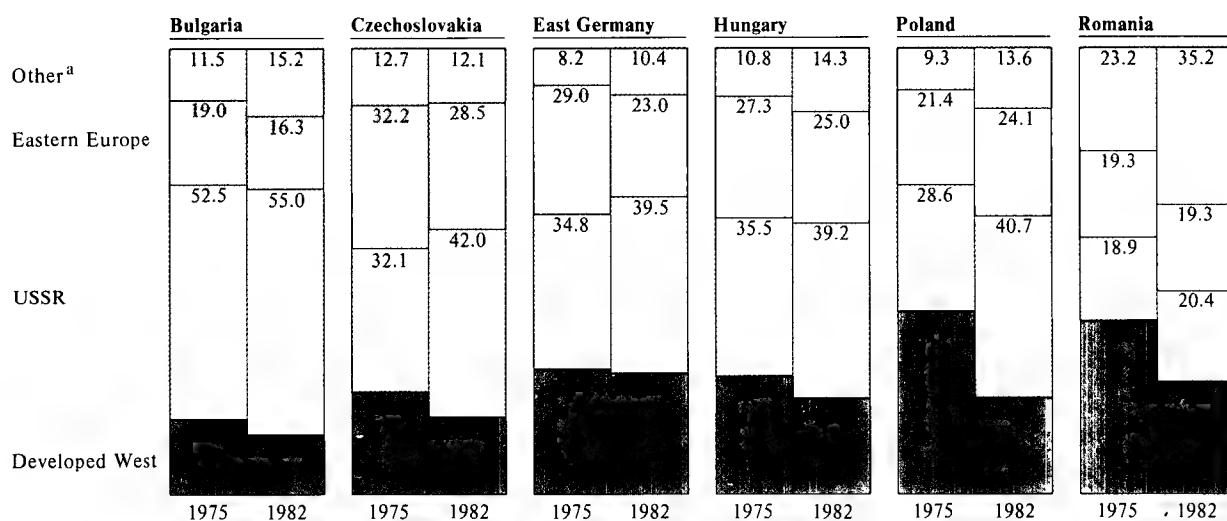
28. Trade between Eastern Europe and the developed West (Western Europe, the United States, Canada, Australia, and Japan) has declined in recent years, partly because of the recession in the West but principally because the financially squeezed East Europeans have had to make sharp cuts in imports. (As a share of the total trade of each country, the West in 1982 accounted for from 13.6 percent to 27.1 percent; the range in 1975 was 17.1 percent to 40.7 percent. See figures 7 and 8 for trade shares and trends in the values of Eastern Europe's hard currency trade.) The West, however, plays a much more important role in East European economic development than overall trade statistics might indicate. It supplies significant quantities of grain and livestock feedstuffs, chemicals, and technologically advanced machinery, none of which are easily available elsewhere. It also probably remains, in the minds of many East Europeans, the only source of the kind of technological and managerial know-how these countries need to cope effectively with their economic problems. Moreover:

- The fundamental economic difficulties that impelled the East Europeans to seek a major expansion of economic relations with the West in the early 1970s still exist and are now, if anything, even more pressing.
- Although East European financial constraints now limit Western exports to the area, a number of West European governments and commercial interests still see the East as, potentially, a major market, and expanded trade with the area as a potential source of large profits (and a way to

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Figure 7
Eastern Europe: Trade Shares



^a Includes other Communist and less developed countries.

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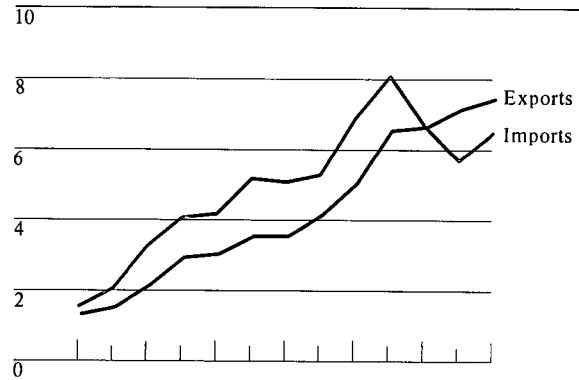
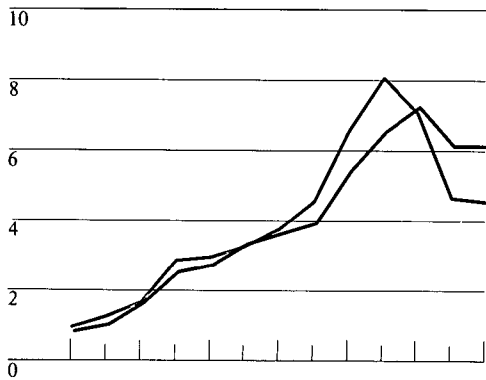
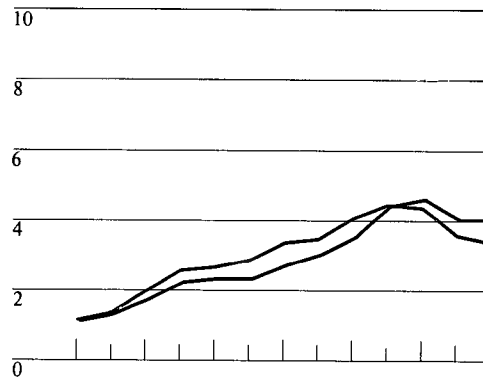
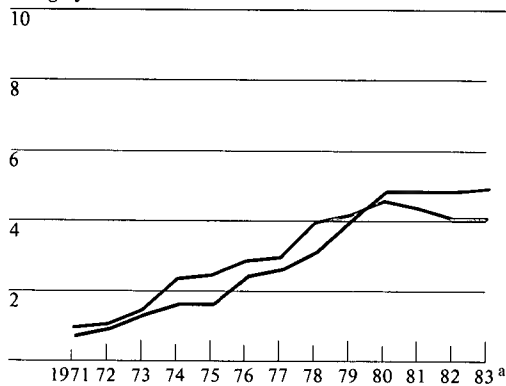
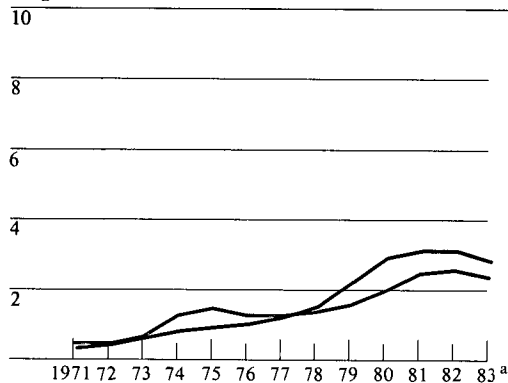
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Figure 8
Eastern Europe: Hard Currency Trade

Billion US \$

Poland**East Germany****Romania****Czechoslovakia****Hungary****Bulgaria**^a Preliminary estimates.

Source: CIA estimates

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reduce unemployment in depressed industries). Most West European governments seem, in addition, to regard economic ties as useful for sheltering political contacts during a period of increasing US-Soviet tension, as suggested by West European emergency financial aid to Hungary in 1982, West Germany's large credit guarantee for East Germany in 1983, and, in general, Western Europe's relatively accommodating position concerning the rescheduling of Polish debt.

The Overall Outlook

29. Despite severe economic and political problems, the East Europeans (excepting the Hungarians) seem likely, at least for the next few years, to continue to temporize. Some of them (for instance, the Bulgarians) will experiment with economic reform, others (including the East Germans) will seek solutions in a more efficient command system and technologically inspired improvements in productivity. Time can be bought by trying to muddle through in this manner but, in our view, notable progress toward prosperity and stability cannot. (For its part, the Soviet regime will probably go along with diverse, essentially temporizing policies, even as it also seeks to bolster its ability eventually to move the East Europeans into lockstep.) Eastern Europe is thus likely, we believe, to remain a "depressed area"—and a potentially volatile one—for at least the next few years.

30. This is not to say that major crises (accompanied or occasioned by political turmoil or widespread disorder or both) are inevitable during the balance of this decade. But popular disaffection in Eastern Europe is, we think, more likely to grow than diminish, and agitation for new, more effective approaches will continue to stir the politics of the area, if not the policies. There are, moreover, at least three contingencies which could, singly or in combination, help to provoke a crisis in one or another of these countries comparable in import to some of those of the past:

- *A further intensification of economic troubles* (and/or popular perception of the same), especially if mishandled by an inept regime (as in Czechoslovakia in 1953, East Germany in 1953, and Poland in 1970 and 1980-81).

- *Serious disarray within the parties* caused in part by succession-related infighting, especially if it leads to, or is preceded by, the involvement in politics of other domestic interest groups and, perhaps, the public as well (as in Hungary in 1956, Czechoslovakia 1968, and Poland 1980-81).
- *A succession struggle in the USSR*, of an intensity sufficient, inter alia, to disrupt policy toward, and/or to contribute to party disarray within, Eastern Europe (as was the case after Stalin's death in 1953 and, to a lesser extent, after Khrushchev's ouster in 1964).

31. We are not able to estimate the likelihood of these contingencies, and we are not able to define with any precision the possible effects of such contingencies, should they come to pass. It is conceivable that the post-Andropov leadership will find better solutions to its problems in Eastern Europe than its predecessors did. But we do not think this at all likely, at least in the near term; the roots of these problems lie too deep for quick and easy amelioration. We feel, in fact, largely on the basis of the actual postwar record and our reading of the current troubled scene in Eastern Europe, that (whoever is ruling the USSR) the odds favor the occurrence of political crises within one or more of the East European states, and/or between one or more of these states and the USSR, before the decade is out. There have been, by our count, 10 significant crises in Soviet-dominated Eastern Europe since the establishment of Soviet hegemony after World War II.⁴ And the signs of the times—economic adversity, impending changes in East European leaderships, the possibility of succession-related difficulties in the USSR—certainly do not now seem to portend stability in Eastern Europe, even if they do not necessarily foreshadow turmoil (see figure 9).

32. Two sets of circumstances seem to be the most likely to provoke unrest and mass popular protests in Eastern Europe:

- The first is a move by a regime to correct or alleviate serious economic imbalances—for ex-

⁴ In 1948, the Yugoslav break with the Bloc; 1953, the insurrection in East Berlin and other cities of East Germany; 1953, the major riots and (temporary) loss of regime control in Plzen, Czechoslovakia; 1956, the political crisis in Poland (which brought Gomulka to power); 1956, the Hungarian Revolution; 1961, the Albanian defection from the Bloc; 1964, the Romanian "declaration of independence"; 1968, "the Prague Spring"; 1970, the Baltic Coast riots in Poland; and 1980-81, the Solidarity era in Poland.

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Figure 9
Stability Assessment of Eastern Europe, 1984

	Factors Affecting Stability					Assessment		
	Economic Growth (GNP) of Living (Prospects 1984-85)	Standard of Living	Regime Cohesiveness	Character of Regime Rule	Popular Morale	Current Stability	Rank	Stability Trend
Hungary	1.0	Good, declining somewhat	Good	Fairly benign	Pretty good but declining somewhat	Pretty good	1	Decreasing slightly
Bulgaria	1.5	Fair, improving slowly	Fairly good	Firm, repressive	Fair (much apathy)	Fair	2	Steady
East Germany	1.0-2.0	Good but probably declining	Good	Firm, repressive	Sagging	Fair	3	Decreasing slightly
Czechoslovakia	1.0	Fair to good but probably declining	Fair	Rigid, repressive	Depressed	Poor to fair	4	Decreasing slightly
Poland	1.0-1.5	Fair	Poor	Firm, selectively repressive	Bad	Poor	5	Steady
Romania	1.5	Poor, declining	Fragile	Rigid, very repressive	Bad, and declining	Poor	5	Decreasing

Note: The intent of this chart is to permit cross-country comparisons and to weigh in rough fashion overall trends in stability in each country.

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ample, excessive wages, overly subsidized prices, or inflated currencies—largely at the expense of the consumer. This has happened in the past in Czechoslovakia (1953), East Germany (1953), and in Poland (1956, 1970, 1976, and 1980) each instance involving large-scale demonstrations and riots. While other grievances and political frustrations certainly played a role, the immediate causes of worker outrage were narrowly economic.

- More complex in origin, expression, and effect, the second set of potentially disruptive circumstances has three times led to revolutions in Communist Eastern Europe (in Hungary 1956, Czechoslovakia 1968, and Poland 1980-81). Though well nourished by economic discontent, the roots of these revolutions were in large part political and social, and in each case, the regimes—torn by related dissension within their own parties—found themselves unable to withstand massive pressures for change. At the same time, in the case of the Hungarian and Czechoslovak revolutions, succession-related uncertainties and disagreements over how best to proceed prevented the Soviet leaderships of the time from dealing effectively with the onset of troubles.

33. Should there be another major crisis in an East European Warsaw Pact state, any Soviet leadership would, we believe, try initially to contain it without resort to force. But if the Soviet leadership concluded that the USSR's hold on that state (or, a corollary, the local Communist regime's hold on power) were being lost, then it would almost certainly elect to intervene militarily. There can be little doubt that the first priority of the Soviet Union in Eastern Europe is to preserve its dominion, imperfect as that may be. We think it also true, however, that most of the East Europeans retain substantial room for maneuver short of that point where the Soviets would feel compelled to use force. For the East Europeans, the lesson of past Soviet military interventions (and noninterventions) has been, we think, threefold:

- Moscow will move militarily if need be.
- But it may be indecisive about what precisely constitutes need in any given circumstance.
- And (as was the case vis-a-vis Poland in 1981 and has been the case concerning Romania since

1964) it will run a certain risk and pay a certain price to avoid intervention.

Implications for the United States and the West

34. Some fundamentals of the relationship between the major parties involved in Eastern Europe seem likely to apply for the foreseeable future:

- At least low-key or hidden contention between Eastern Europe and the USSR will persist, and this will among other things help to keep alive East European interest in better relations with the West.
- Contention between the West and the USSR concerning, among other things, the fate of Eastern Europe will also persist.
- Western Europe and the United States will continue to share the broad, basic hope that Eastern Europe will be able over time to move away from Soviet dominance and toward the Western democratic model.
- But the West European countries and the United States will from time to time disagree, perhaps vehemently, over such questions as how best to achieve their broad objectives in Eastern Europe and how best to relate the pursuit of these objectives to the conduct of East-West affairs in general.

35. The West Europeans believe, in very general terms, that history and geography have given them unique insights into the problems of Eastern Europe, years of Iron Curtain separation notwithstanding. Indeed, many West Europeans seem persuaded that the isolation of Eastern Europe was substantially mitigated during the 1970s, largely as a result of their efforts to expand East-West economic relations and to create a detente-related relaxation of political tensions in Europe. And despite the unsettling events in Poland and the financial crisis of the early 1980s, they apparently believe that the atmosphere of the 1970s can and should be created anew, that East and West Europeans share an interest in alleviating US-Soviet tensions, and that, over time, some or all of the East European states can be eased back into the mainstream of European life. They are in any case reluctant to jeopardize their

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economic stake in the area—far larger than that of the United States⁵—by applying pressure and pursuing tough policies.

36. West Germany is particularly anxious to avoid disruptions in its relations with Eastern Europe. All West German considerations of policy toward the East, in fact, are affected by Bonn's apprehensions and aspirations in regard to East Germany, specifically the fear of both major West German political parties that serious instability in the GDR would hurt the East German people, damage West German leverage, and ruin whatever chances there are for ultimate reunification.

37. We believe that, whatever the particular policies and disagreements of the NATO powers, the West will in the short run possess only a limited ability to influence the course of events in Eastern Europe. But acute East European economic needs, and the USSR's unwillingness or inability to satisfy them, do provide the West with some continuing leverage in the area. Some regimes—the Romanian, Hungarian, and perhaps some others to a lesser degree—appear modestly susceptible to Western economic pressures and inducements. Hungary, anxious for better economic ties, still seems to want to cultivate friendly political relations with the West as well (though in a rather vague and low-key way); Romania is apparently still eager for Western political support; and even Bulgaria has recently shown signs of seeking better relations with the West, including the United States. Still, dramatic movement toward closer relations with the West does not seem likely in the near term, or at least so long as East-West tensions—and thus Soviet pressures for conformity on major foreign policy issues—remain high.

38. In the longer term, however, we believe that—barring certain contingencies, such as another explosion in the area—opportunities for some expansion of Western, especially West European, influence in the area are likely to grow. Many, perhaps most, of these regimes will, we think, try quietly over time to

⁵ In 1982, the total trade of Western Europe (the four largest countries plus seven others, including Austria) with the six East European countries amounted to about \$26.6 billion, or almost 14 times US trade with the same states (about \$1.94 billion). In the same year, Western Europe's share of Eastern Europe's hard currency debt to non-Communist countries (roughly 60 percent of some \$62 billion) was more than five times that of the United States.

increase their ability to pursue essentially national solutions to national problems. And some of them may come to understand, as Hungary apparently already has, that they need domestic economic and political reform and Western help—trade, credits, know-how—if they are ever to achieve lasting health for their economies and ever to establish a secure and long-lasting modus vivendi with their own peoples. Thus we believe that the prudent use of Western economic levers and political pressures could over time help to reinforce any moves toward market-oriented reform and autonomy in Eastern Europe (or, conversely, discourage the opposite.)

39. But risks would accompany any effort by the West to increase its economic and political leverage in Eastern Europe. The renewal of lending at high levels would of course involve serious financial risks for the lenders and thus might require greater than usual governmental participation and guaranty programs. It might in any case—and once again, as in the 1970s—have unintended results, that is, provide the East European regimes with the wherewithal to avoid hard policy choices between Communist “principles” and rational economic acts. And, to increase its leverage, the West might have to consider the use of a number of new and perhaps controversial approaches to Eastern Europe, such as expanding membership in the IMF, pursuing agreements between the East European countries and the European Community, or assuming politically motivated aid programs with more stringent conditions than imposed in the 1970s.

40. Further, whatever its approach, the West almost certainly will not itself be able to create the conditions that give rise to East European moves toward economic flexibility and independence. Post-war history—from the Yugoslav-Soviet break of 1948 to the Solidarity era in Poland, 1980-81—suggests that the initiative for change in Eastern Europe must arise in the main from within. It also suggests that each East European regime will bring into its relations with the West—as indeed each does in its relations with the East—its own peculiar set of wishes, suspicions, ideological prejudices, and apprehensions about Soviet attitudes. Accordingly, even in the best of circumstances, the movement of the East European countries toward the West—if indeed there is to be such—would probably be uneven and halting. It would also probably be partly concealed.

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41. East European perceptions of the Soviet Union are crucial in this context. An element of Moscow's strength in Eastern Europe rests on the USSR's reputation as a resolute and dynamic superpower, led by men skillful and strong enough to make the tough decisions. When that reputation and image of leadership have been undermined—as in the mid-1950s (after the death of Stalin) and, to a lesser extent, in the late 1960s and perhaps the late 1970s—troubles in Eastern Europe have multiplied. Should that happen again, through divisions and indecision in the Kremlin and/or major Soviet setbacks on the international scene, pressures in Eastern Europe for change, independence, and movement toward the West would probably grow, and could do so rapidly.

42. For their part, in the event of growing Western economic and perhaps political involvement in Eastern Europe, the Soviets will face essentially incompatible objectives: they will be determined to guard their hegemony—and the “purity” of the local parties—against Western inroads; at the same time, they will wish to steer clear of actions in Eastern Europe that

might compromise their “detente” policies in Western Europe and their efforts to fray and ultimately sever the ties between the United States and its NATO partners. Similarly, concerning East-West European economic relations, the Soviets will be of two minds, on the one hand hopeful that Western “aid” could help ailing economies and concerned that the USSR would have to take up some of the slack if Western ties were once again greatly reduced, but on the other quite wary of East European dependence on Western goods and credits.

43. On balance, we believe that, short of a major crisis in the area, these competing objectives will not be resolved. Further, while the Soviet Union will maintain limits within which the East European regimes will have to operate, it is unlikely to develop an effective, consistent strategy for dealing with the long-term problems of Eastern Europe. This, together with the USSR's probable inability to provide adequate economic assistance, is likely, in our view, to give those East Europeans who seek them new opportunities to push back the bounds of the permissible.

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